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Mr. Doherty

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1965

HOME OIL COMPANY LIMITED

ANNUAL
REPORT

Highlights

- Gross income up 11% to \$20,130,000.
- Net income and special credit up 10% to \$5,737,000 or \$1.19 per share.
- Net cash flow from operations up 13% to \$10,921,000 or \$2.26 per share.
- Extra dividend of \$0.15 per share declared on both Class A and B shares.
- Company negotiated private sale of \$25,000,000 (U.S.) 5⁷/₈% Secured Bonds.
- Home Oil acquired 508,500 common shares of Calgary Power Ltd., almost 10% of the outstanding shares.
- Net exploratory land holdings increased by 17% to 2,382,000 acres.
- Home participated in the drilling of a record 45 exploratory wells.
- Proven developed reserves of crude oil and natural gas liquids and natural gas reach record highs of 152,489,000 barrels and 677,001,000 Mcf.
- Crude oil and natural gas liquids production up 10% to 12,809 barrels per day.
- Natural gas sales up 4% to 61.8 million cubic feet per day.

Directors

- *R. A. BROWN, JR., Calgary, Alberta
- R. M. BROWN, Vancouver, B.C.
- *R. W. CAMPBELL, Calgary, Alberta
- E. F. DAVIS, Los Angeles, California
- *M. A. DUTTON, Calgary, Alberta
- P. M. FOX, Montreal, Quebec
- W. F. JAMES, Toronto, Ontario
- *J. W. MOYER, Calgary, Alberta
- H. I. PRICE, Toronto, Ontario
- *G. H. THOMPSON, M.C., Calgary, Alberta
- A. J. WALKER, Montreal, Quebec
- J. B. WEIR, O.B.E., E.D., Montreal, Quebec
- R. F. WILL, Calgary, Alberta

**Member Executive Committee*

Officers

- J. W. MOYER, Chairman of the Board
- *R. A. BROWN, JR., President and Managing Director
- R. W. CAMPBELL, Executive Vice-President and General Manager
- R. M. BROWN, Vice-President
- G. J. BLUNDUN, Vice-President, Exploration
- R. B. COLEMAN, Vice-President, Secretary and General Counsel
- I. M. DRUM, Vice-President, Special Projects
- M. P. PAULSON, Vice-President, Production and Pipe Lines
- R. F. PHILLIPS, Vice-President, Administration
- G. W. BENNETT, Comptroller
- B. B. ROMBOUGH, Treasurer
- T. R. DENTON, Assistant Secretary
- F. G. MITCHELL, Assistant Secretary

The thirty-seventh annual report of Home Oil Company Limited

1965



HOME

OIL COMPANY LIMITED

Directors



JOHN W. MOYER *
Calgary, Alberta

Chairman of the Board of the Company; Director of the Calgary Exhibition & Stampede Ltd.



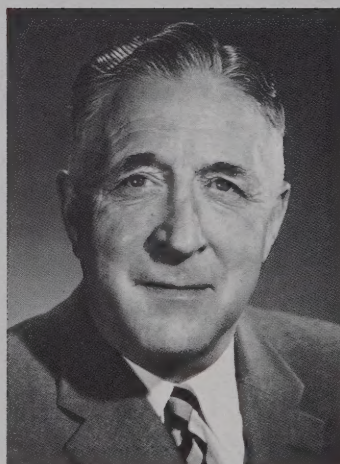
ROBERT A. BROWN, JR. *
Calgary, Alberta

President and Managing Director of the Company; Chairman and President of Cygnus Corporation Limited; Director of Trans-Canada Pipe Lines Limited, Crown Trust Company, Canadian National Railways, Air Canada.



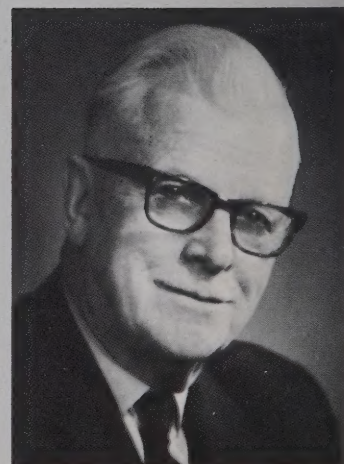
ROBERT W. CAMPBELL *
Calgary, Alberta

Executive Vice-President and General Manager of the Company; Executive Vice-President and Director of Cygnus Corporation Limited; Director of Trans-Canada Pipe Lines Limited.



MERVYN A. DUTTON *
Calgary, Alberta

Chairman of the Board of Standard-General Construction (International) Ltd.; President of Chinook Shopping Centre Ltd.; Director of Crown Trust Company, Calgary Exhibition & Stampede Ltd.



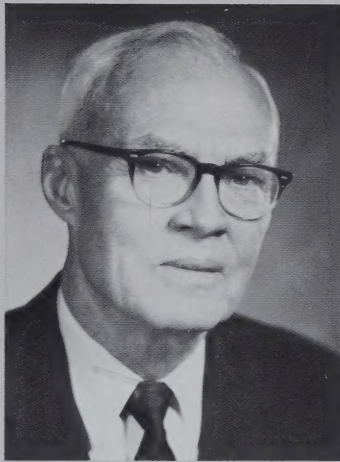
G. HARRY THOMPSON, M.C. *
Calgary, Alberta

Chairman of the Board of Calgary Power Ltd.; Vice-President and Director of Montreal Engineering Company Ltd.; Director of Trans-Canada Pipe Lines Limited.

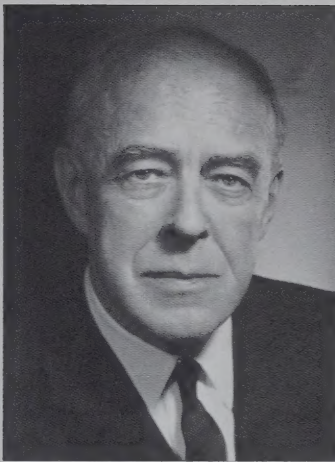
* *Member Executive Committee*



RONALD M. BROWN
Vancouver, B.C.
Vice-President of the Company.



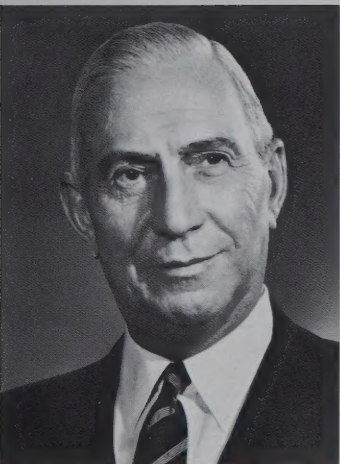
E. FRED DAVIS
Los Angeles, California
Consultant to the Company.



PERCY M. FOX
Montreal, Quebec
Chairman of the Board of The Great Lakes Paper Company, Limited; President of Mohawk Corporation Limited; Director of Argus Corporation Limited, Canadian Imperial Bank of Commerce, The Royal Trust Company, Domtar Limited.



WILLIAM F. JAMES
Toronto, Ontario
Partner of James, Buffam & Cooper; Vice-President and Director of Alminex Limited and Canadian Gas and Energy Investments Ltd.; Director of Canadian Imperial Bank of Commerce, Cygnus Corporation Limited, Falconbridge Nickel Mines Limited, The Patino Mining Corporation.



HARRY I. PRICE
Toronto, Ontario
Chairman of the Board of Harry Price Insurance Limited; Vice-President and Director of Queen Elizabeth Hospital; Life Director of the Canadian National Exhibition; Director of Cygnus Corporation Limited, Burns & Co. Limited, Bridge & Tank Company of Canada Limited, Bramalea Consolidated Developments Ltd.



ALVIN J. WALKER
Montreal, Quebec
Chairman, President and Managing Director of Holt Renfrew & Co. Ltd.; Director of Windsor Hotel Ltd., Canadian Reciprocal Insurers.



JAMES B. WEIR, O.B.E., E.D.
Montreal, Quebec
Chairman of the Board of Oswald, Drinkwater & Graham Ltd.



RALPH F. WILL
Calgary, Alberta
Private Investments.

SWAN HILLS, ALBERTA—The tremendous development which has taken place since Home's discovery of oil in Swan Hills less than 10 years ago, is reflected in this photograph. Where giant Plains Grizzlies once roamed, a town of 2,000 people now stands amid a vast network of roads and wellsites.



President's Report to the Shareholders

It is with satisfaction that I am able to report that in 1965 Home Oil Company Limited enjoyed the most profitable year in its thirty-seven year history. The Company produced more crude oil, processed more natural gas and moved more oil through its pipelines than ever before and broke all previous records in gross income, cash flow and net income.

FINANCIAL

Net income, including a special credit of \$516,133, amounted to \$5,737,253 (\$1.19 per share). On a comparable basis in 1964, net income, including a special credit of \$1,012,289, amounted to \$5,230,723 (\$1.10 per share). The special credits arose from the sale of certain assets. Net income and special credit, before providing for deferred income taxes, amounted to \$8,200,819 (\$1.70 per share) compared with \$7,044,159 (\$1.49 per share) in 1964.

In 1965, Home Oil received \$1,289,000 in dividends from Trans-Canada Pipe Lines Limited on the 1,289,000 shares held. Trans-Canada, which earned \$13,834,000 or \$1.82 per share, paid dividends of \$1.00 per share. Had Trans-Canada paid a dividend equivalent to its net earnings, Home's net income would have been increased by \$1,057,000 or \$0.22 per share.

Gross income increased to \$20,129,962 from \$18,109,356 and 1965 was the first year in which gross income exceeded \$20,000,000, more than double the gross income in 1960. Net cash flow from operations amounted to \$10,920,689 (\$2.26 per share) compared with \$9,643,444 (\$2.03 per share) in 1964. Dividends were paid on the Class A and Class B shares at the rate of \$0.35 per share and an extra dividend of \$0.15 was declared on both classes of stock.

During 1965, Home Oil Company Limited negotiated the sale of \$20,000,000 (U.S.) 57/8% Secured Bonds, Series B to insurance companies in the United States. This sale was completed in January, 1966. United Oils, Limited, a 95 per cent owned subsidiary of Home Oil, completed the sale in December of \$5,000,000 (U.S.) 57/8% Secured Bonds, Series B. Proceeds from the issues were used to retire bank indebtedness and to provide the Companies with working capital which, at January 31, 1966, amounted to approximately \$15,000,000.

PRODUCTION

Production of crude oil and natural gas liquids averaged 12,809 barrels per day, an increase of 10 per cent over the 1964 production of 11,623 barrels per day. Natural gas sales were 61.8 million cubic feet per day compared with 59.3 million per day in 1964, an increase of four per cent. Details of 1965 production, by fields, with comparative figures for previous years are set forth in the table on page 20. It will be noted from these statistics that production from Swan Hills and Virginia Hills increased substantially. Higher allowables, assigned as a result of pressure maintenance operations and the implementation of the new Alberta Proration Plan, contributed to these increases. Production allowables in these fields will

decline during 1966 when lower economic allowances become effective on July 1. This decline will continue through 1967 and, in 1968, the next phase of the Alberta Proration Plan will be implemented and result in higher producing rates for these fields. In 1969, when the plan becomes fully effective, a larger increase in the production allowables is anticipated and Home Oil will benefit substantially.

Production from Mitsue commenced in 1964 and in 1965 the Company received the benefit of a full year's income from the field. Lower production in the Pembina field was caused by the loss of economic allowances previously credited to injection wells.

The contribution that natural gas makes to the Company's income is clearly illustrated in the graph on page 18. Greater demand for natural gas and increases in prices of natural gas and sulphur all contributed to these gains. The Carstairs field continued to be the Company's largest gas property, providing 55 per cent of the total income from gas and its by-products.

Income from the sale of natural gas by-products is expected to make an increasingly important contribution to earnings as a result of steadily improving market conditions and completion of planned recovery projects. A liquefied petroleum gas recovery unit at the Carstairs-Crossfield plant, in which the Company has a 16 per cent interest, is planned for completion in 1967. At the Harmattan Area Plant, in which the Company has a five per cent interest, facilities are being installed to recover additional quantities of natural gas liquids.

As a consequence of the tight world-wide sulphur supply situation, demand and prices for Canadian sulphur greatly increased during the year. Participation by the Company in development of the Harmattan-Leduc sour gas field and construction of a sulphur recovery plant to process gas from this field, will increase Home Oil's sulphur production threefold. The Harmattan-Leduc plant, in which the Company has a 13 per cent interest, is expected to be completed by August 1, 1966 and Home's share of sulphur produced at this plant will amount to about 35,000 long tons per year.

PIPELINES

Home Oil has interests in three crude oil pipelines in Alberta. In our wholly owned Cremona Pipe Line Division, the total volume of crude oil, condensate and butanes handled in 1965 increased to an average of 36,348 barrels per day. While crude oil handled actually declined as a result of lower production allowables this was more than offset by increased condensate and butane gatherings.

Federated Pipe Lines Ltd., which is 50 per cent owned by the Company, increased its throughput to an average of 110,719 barrels per day. This increase was the result of additional drilling, principally in the House Mountain area, and higher production allowables for the Swan Hills region. During the latter part of the year, 7.5 miles of 16-inch loop were added to the main line and some additional lateral line connections were added to the system.



Mitsue Pipe Lines Ltd., in which the Company has a one-third interest, went into operation in February, 1965 and is now transporting oil from the Nipisi and Mitsue fields to the Interprovincial Pipe Line terminal at Redwater. Daily average throughput for the year amounted to 5,900 barrels. It is anticipated that the proposed crude oil pipeline from the Rainbow area will connect with the northern end of the Mitsue pipeline, to greatly increase its throughput.

EXPLORATION

The success of an oil exploration company is largely dependent upon its land holdings. A map showing Home Oil's holdings in Alberta together with a summary of its land inventory is included at the end of the report. It will be seen from the summary that the Company's total acreage substantially increased during the year.

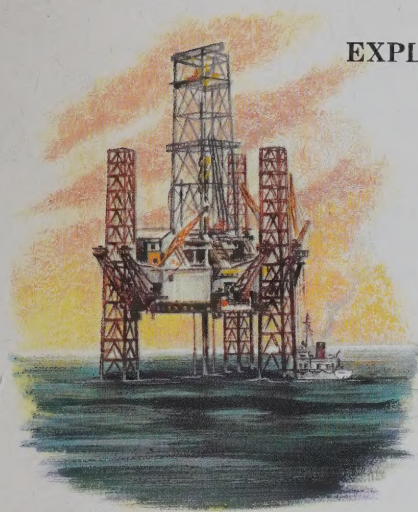
The industry's most active exploratory area currently lies in the north-western part of Alberta. In this area Home has varying interests in 873,100 gross acres, as follows: Bistcho Lake-Steen River 188,900 gross acres (63,000 net acres); Meander River 664,700 gross acres (134,300 net acres); Rainbow Lake 19,500 gross acres (9,750 net acres). In February, 1966, another company reported that a well, four miles northwest of our Bistcho Lake lands, showed significant flows of gas with high condensate recovery from the Slave Point and Muskeg formations.

The Company participated in the drilling of forty-five exploratory wells during the year. Twenty-three of these were drilled in Alberta, thirteen in Saskatchewan, four in Ontario, one in British Columbia and four in England.

In Alberta, one oil discovery and two gas discoveries resulted from exploratory drilling on lands in the Chisholm-Mitsue area where the Company has a 50 per cent interest in 94,000 acres. Further exploratory activity on these lands is planned for early 1966. Home Oil also has interests in gas discoveries in the Goodridge Lake and Medicine River areas.

Due to improved blending techniques, pipelines are now able to move heavy oil to eastern Canadian refineries and consequently the demand for such crude is increasing. The Company has, therefore, become active in the search for heavy crude and has acquired an average interest of 79 per cent in 102,360 reservation acres in the Cold Lake and Christina Lake areas of Alberta. Five stratigraphic tests were drilled for information on the former and the results are now being evaluated.

Saskatchewan is producing crude oil at its maximum permissible rate. Reserves in that province, therefore, can be produced more quickly than in Alberta. For this reason, the Company is expanding its activities in Saskatchewan. In 1965, ten wells were drilled, of which one was an oil discovery, to earn a 25 per cent interest in 323,600 acres of permit and lease near Estevan. Three drilling reservations and a permit totalling 105,120 acres, in which the Company has an average interest of 53 per cent, were also purchased and will be explored in 1966.



Home Oil continued its exploration program in Yorkshire, England with the drilling of four wells, all of which were unsuccessful. A further three wells are required to earn the Company a 50 per cent interest in 933,600 acres and these will be drilled in 1966. During the year, Home Oil was awarded a third production licence comprising 19,000 acres in the North Sea, bringing its total interests to 767,200 gross acres (383,600 net). Following extensive seismic work, a drilling location has been selected and negotiations to obtain an offshore drilling platform are in progress. It is of interest to note that the first commercial gas discovery in the British portion of the North Sea was made in 1965. The location of this well relative to Home's acreage is shown on the map at the back of the report.

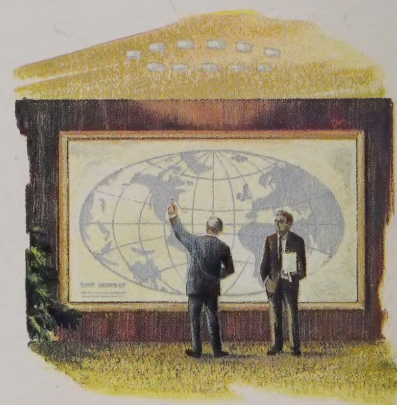
RESERVES

A summary of Home's crude oil, natural gas liquids and natural gas reserves, as estimated by the Company's engineers, may be found at the end of the report. The marked growth reflected by this tabulation is attributable to several factors. Pressure maintenance results in Swan Hills now indicate that a much higher percentage of the original oil in place will be ultimately recovered. Exploration and development drilling contributed to increased oil reserves, while improved field performances led to recalculation of certain gas reserves. The Company participated in the drilling of thirty-three development wells of which nineteen were completed as oil wells and eight as gas wells. These together with the successful exploratory wells referred to earlier, added to the crude oil reserves of the Swan Hills, Mitsue and Freeman fields while discoveries in Mitsue, Goodridge Lake and Medicine River areas added to gas reserves.

GENERAL

For some years, Home Oil has been seeking to diversify its activities within the energy field, in areas which offer a favourable rate of growth. The 1962 Annual Report outlined the Company's moves into Trans-Canada Pipe Lines and into crude oil pipelines and gas processing plants. This trend continued in 1965 when the Company acquired 508,500 shares of Calgary Power Ltd., at a cost of \$13,000,000. This holding represents nearly 10 per cent of Calgary Power's outstanding shares and is believed to be the largest single shareholding. The demand for electrical energy is expected to grow in Alberta at a rate of more than nine per cent per year, a significantly higher rate than for Canada as a whole. It is our belief that investment of a portion of our funds in this and other rapid growth areas will prove to be of great benefit to shareholders. As at December 31, 1965, the market value of Home's investments in Trans-Canada Pipe Lines Limited and Calgary Power Ltd. exceeded the acquisition costs by approximately \$17,000,000. On pages 16 and 17, certain information is given about the activities of these companies.

Home Oil has invested in Cryogenic Enterprises Ltd., a company that has developed new methods for the storage of natural gas which are believed to be less costly than those currently in use. Through the use of these methods, it will be



possible to serve areas where pipelines are impracticable, for physical or economic reasons. Liquefied natural gas is also being used increasingly by gas distribution companies as a means of satisfying peak customer demands. The Company is also participating, as an equal partner with Crown Trust Company, in the construction of a ten-storey office building in downtown Calgary.

The diversification program outlined above is being carried out simultaneously with steady expansion in the Company's primary activity as an oil and gas exploration company. For example, exploration expenditures in 1965 increased to \$5,296,000 from \$3,495,000 in 1964 and were more than double the expenditures in 1960.

The demand for Canadian crude oil continued to increase during the year and there is every reason to believe that markets will grow steadily over the long term. A profitable market for Canadian crude oil in the United States now seems assured, providing the Government of Canada implements the National Oil Policy with conviction and vigour.

The expansion of the continent-wide demand for natural gas has continued at a pace none could envision less than a decade ago. Certainly the growth of Trans-Canada Pipe Lines has far exceeded even the most optimistic expectations of its sponsors. Home Oil is convinced that we are far from the end of the period of expansion in the demand for Canadian natural gas and its increasingly valuable by-products. Great Lakes Transmission Company which is owned 50 per cent by Trans-Canada Pipe Lines, has applied to the Federal Power Commission for permission to build a 989 mile, 36-inch gas line from Manitoba through Minnesota, Wisconsin and Michigan to Ontario. An application for permission to export the additional gas from Alberta has been submitted to the Oil & Gas Conservation Board and an application for the export of this gas from Canada has been made to the National Energy Board. With the anticipated approval of this project, vast new markets will be opened for Canadian natural gas in both countries. Your directors are confident that Trans-Canada is advantageously placed to exploit these and other opportunities which are bound to arise with the future expansion of natural gas demand.

Mr. Alvin J. Walker of Montreal was appointed to the Board of Directors in September, 1965. Mr. Walker is Chairman, President and Managing Director of Holt Renfrew & Co. Ltd. and brings to the Company valuable business and financial experience.

Much of the credit for the accomplishments of 1965 must go to the staff of Home Oil and it is again my pleasure to record the appreciation of the Board of Directors for their efforts on behalf of the Company.

Submitted on behalf of the Board of Directors,



President

March 1, 1966

Auditors' Report

TO THE SHAREHOLDERS HOME OIL COMPANY LIMITED

We have examined the accompanying consolidated financial statements of Home Oil Company Limited and subsidiary companies for the year ended December 31, 1965 comprising the consolidated balance sheet as at that date and the consolidated statements of income, earned surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the companies as at December 31, 1965 and the results of their operations and the source and use of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 19, 1966.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

Consolidated Source and Use of Funds

	YEAR ENDED DECEMBER 31,	
	1965	1964
FUNDS WERE OBTAINED FROM:		
Net income before special credit	\$ 5,221,120	\$ 4,218,434
Add: Charges to income not requiring funds including depreciation, amortization and deferred income tax	5,699,569	5,425,010
Net flow of funds from operations	10,920,689	9,643,444
Long term borrowings — net	5,696,155	19,389,942
Issuance of capital stock (less \$2,000 in 1965 and \$1,419,946 in 1964 applicable to conver- sion of debt)	774,011	354,874
	<u>\$17,390,855</u>	<u>\$29,388,260</u>
FUNDS WERE USED FOR:		
Expenditures for property, plant and equipment	\$ 8,857,752	\$ 7,198,478
Investment in Calgary Power Ltd.	12,988,266	—
Acquisition of United Oils, Limited	169,082	9,818,650
Investment in Trans-Canada Pipe Lines Limited	169,295	1,381,310
Other investments — net	639,618	(1,141,934)
Repayment of long term debt	3,064,176	4,102,888
Payment of dividends	2,416,878	1,620,172
Other items — net	(54,507)	511,090
	<u>28,250,560</u>	<u>23,490,654</u>
Increase (decrease) in working capital	(10,859,705)	5,897,606
	<u>\$17,390,855</u>	<u>\$29,388,260</u>

The accompanying notes to financial statements are an integral part of the above statement.

Consolidated Statement of Income

	YEAR ENDED DECEMBER 31,	
	1965	1964
INCOME		
Gross operating income	\$17,320,196	\$15,585,751
Interest and dividend income	2,809,766	2,523,605
	<u>20,129,962</u>	<u>18,109,356</u>
EXPENSE		
Operating expense	2,610,853	2,468,654
General and administrative expense	2,045,557	1,749,029
Amortization	2,327,470	2,138,019
Depreciation	1,104,395	1,329,940
Interest and expense on long term debt	4,444,716	3,728,759
Other interest	170,351	663,085
	<u>12,703,342</u>	<u>12,077,486</u>
Net income before deferred income taxes	7,426,620	6,031,870
DEFERRED INCOME TAXES (Note 6)	2,205,500	1,813,436
NET INCOME	<u>5,221,120</u>	<u>4,218,434</u>
SPECIAL CREDIT		
Gain on sale of fixed assets (after deferred income tax of \$258,066)	516,133	—
Gain on disposition of securities	—	1,012,289
NET INCOME AND SPECIAL CREDIT	<u>\$ 5,737,253</u>	<u>\$ 5,230,723</u>

Consolidated Statement of Earned Surplus

FOR THE YEAR ENDED DECEMBER 31, 1965

BALANCE as at January 1, 1965		\$13,471,105
Add: Net income and special credit	\$5,737,253	
Retroactive adjustments in respect to deferred income taxes (Note 6)	<u>2,631,794</u>	<u>8,369,047</u>
		21,840,152
Deduct: Dividends		
Class A shares	1,304,889	
Class B shares	<u>1,111,989</u>	<u>2,416,878</u>
BALANCE as at December 31, 1965		<u>\$19,423,274</u>

The accompanying notes to financial statements are an integral part of the above statements.

Consolidated Balance Sheet as at December 31, 1965

<i>Assets</i>	1965	1964
CURRENT ASSETS		
Cash	\$ 8,528,507	\$ 5,867,539
Marketable securities (quoted market value \$885,532)	593,810	593,810
Accounts receivable	4,626,078	4,355,597
Inventories of materials and supplies at or below average cost	298,175	414,137
	<u>14,046,570</u>	<u>11,231,083</u>
INVESTMENTS, at cost		
Trans-Canada Pipe Lines Limited (Note 2) . .	33,388,410	33,219,115
Calgary Power Ltd. (Note 2)	12,988,266	—
Other investments	3,751,189	3,112,149
	<u>50,127,865</u>	<u>36,331,264</u>
PROPERTY, PLANT AND EQUIPMENT,		
at cost (Note 3)	141,797,123	132,867,229
Less accumulated amortization and depreciation .	51,109,898	48,820,853
	<u>90,687,225</u>	<u>84,046,376</u>
OTHER ASSETS AND DEFERRED CHARGES		
Unamortized debt discount and expense	1,026,694	1,089,627
Miscellaneous	474,425	776,039
	<u>1,501,119</u>	<u>1,865,666</u>
	<u>\$156,362,779</u>	<u>\$133,474,389</u>

The accompanying notes to financial statements

Liabilities

1965

1964

CURRENT LIABILITIES

Bank loans — secured by investments	\$ 12,900,000	\$ —
Accounts payable and accrued charges	3,392,798	3,761,786
Dividends payable	1,571,422	824,861
Current portion of long term debt	2,145,347	1,747,728
	<u>20,009,567</u>	<u>6,334,375</u>

LONG TERM DEBT (Note 4)	69,940,811	67,286,974
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DEFERRED INCOME TAXES (Note 6)	14,216,665	11,753,098
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CAPITAL STOCK AND SURPLUS

Capital stock (Note 5)

Authorized

7,000,000 Class A shares of no par value

5,000,000 Class B shares of no par value

Issued and fully paid

(including shares held by subsidiary
companies — see below)

2,609,902 Class A shares (1964—2,601,103) . .	22,198,842	22,124,914
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2,500,690 Class B shares (1964—2,415,640) . .	13,567,961	12,865,878
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	<u>35,766,803</u>	<u>34,990,792</u>
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Earned surplus — per statement attached . . .	19,423,274	16,102,899
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	<u>55,190,077</u>	<u>51,093,691</u>
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Less — cost of 275,506 Class B shares held

by subsidiary companies	2,994,341	2,993,749
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	<u>52,195,736</u>	<u>48,099,942</u>
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Approved on behalf of the Board:

R. A. Brown Director

Robert. Campbell Director

	<u>\$156,362,779</u>	<u>\$133,474,389</u>
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an integral part of the above balance sheet.

Notes to Financial Statements as at December 31, 1965

NOTE 1 ACCOUNTING POLICIES

(i) Full Cost Method of Accounting.

The Company follows the "full cost method of accounting" and capitalizes all costs of exploring for and developing its oil and gas reserves. Such costs include lease acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and overhead expense related to the exploration activities of the Company. These costs are amortized using the unit of production method based upon estimated recoverable quantities of oil and gas as determined by Company engineers.

(ii) Depreciation.

Depreciation of plant and equipment, applied on the straight line method, is based upon the estimated service life of each group of assets.

(iii) Principles of Consolidation.

(a) The consolidated financial statements of the Company include the accounts of all companies in which the Company directly, or indirectly, has ownership of more than 50% of the voting capital stock. These include United Oils, Limited, Coastal Oils Limited, Foothills Oil and Gas Company, Limited, Home Oil Company of Canada (a U.S. company), and Home Oil of Canada Limited (a U.K. company). The Company owns 94.8% of the shares of United Oils and virtually 100% of the shares of the remaining subsidiaries.

(b) Current assets and current liabilities of foreign subsidiaries were converted to Canadian dollars using the exchange rate at the date of the balance sheet. Fixed assets of these subsidiaries were converted at the rate in effect at the time the assets were acquired while expense items were converted using the average rate of exchange for the year.

NOTE 2 INVESTMENTS

The Company, as at December 31, 1965, held 1,289,485 common shares of Trans-Canada Pipe Lines Limited (market value \$49,484,000) and 508,500 common shares of Calgary Power Ltd. (market value \$13,920,000). The market value of these investments is based upon the closing market prices on the Toronto Stock Exchange on December 31, 1965.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the cost of property, plant and equipment and the related accumulated amortization and depreciation as at December 31, 1965:

	Cost of Assets	Accumulated Amortization and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development thereon	\$113,240,421	\$42,560,792	\$70,679,629
Production equipment	16,069,327	5,615,790	10,453,537
Land, buildings, pipe line property and other equipment	12,487,375	2,933,316	9,554,059
	<u>\$141,797,123</u>	<u>\$51,109,898</u>	<u>\$90,687,225</u>

NOTE 4 LONG TERM DEBT**HOME OIL COMPANY LIMITED**

5½% Secured Notes, due September 1, 1971

	December 31, 1965	1964
Series A	\$ 1,495,000	\$ 1,710,000
Series B (\$2,735,000 U.S.)	2,684,128*	—
(\$3,130,000 U.S.)	—	3,065,170*

(subject to annual sinking fund payments)

6½% Secured Sinking Fund Pipe Line Bonds, due November 1, 1977

1,152,000 1,300,000

6½% Secured Bonds, due January 31, 1975

(\$7,786,199 U.S.) 7,419,587*

(\$8,394,029 U.S.) —

(subject to payments based on production from pledged properties) 8,005,749*

6½% Secured Bonds, due July 1, 1976

(\$11,904,032 U.S.) 12,287,976*

(\$12,740,736 U.S.) —

(subject to payments based on production from pledged properties) 13,133,938*

6¼% Collateral Trust Bonds, due April 1, 1983

15,000,000 15,000,000

(subject to annual sinking fund payments commencing in 1969)

5½% Convertible Subordinated Debentures, due December 1, 1984

20,408,200 20,061,700

(subject to annual sinking fund payments commencing in 1969)

6¼% Mortgage, maturing January 1, 1978 (payable in monthly instalments)

1,312,853 1,382,084

UNITED OILS, LIMITED

6½% Secured Bonds, Series A, due July 1, 1976

(\$4,585,002 U.S.) 4,956,101

(\$4,973,517 U.S.) —

(subject to payments based on production from pledged properties) 5,376,061

5½% Secured Bonds, Series B, due January 1, 1981 (\$5,000,000 U.S.)

5,370,313*

(subject to payments based on production from pledged properties) —

72,086,158 69,034,702

2,145,347 1,747,728

\$69,940,811 \$67,286,974

Less: Current portion

*Recorded at the rate of exchange in effect when the funds were received by the Company.

The estimated amount in Canadian dollars of long term debt maturities and sinking fund requirements for the four years subsequent to 1966 are as follows: 1967 — \$2.8 million, 1968 — \$2.8 million, 1969 — \$4.8 million, 1970 — \$5.3 million.

The Company, on January 28th, 1966, completed the sale at par of \$20,000,000 (U.S.) 5½% Secured Bonds, Series B. The issue is subject to monthly payments based upon production from the pledged properties.

NOTE 5 CAPITAL STOCK

(i) Dividends.

There are restrictions on the payment of cash dividends on the Class B shares and of dividends in excess of 25 cents per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the long term debt outstanding. Under the most restrictive provision the amount of surplus available for dividends at December 31, 1965 was \$10,591,000 after providing for dividends to be paid January 1, 1966.

(ii) Shares Reserved for Exercise of Warrants and Conversion of Debt.

There were 1,200,537 Class A shares reserved at December 31, 1965 for issuance upon the exercise of warrants and the conversion of debt as follows:

Warrants to purchase Class A shares in the amounts of 70,162 at \$14.31 per share on or before September 1, 1966, 76,975 at \$14.55 U.S. per share on or before July 1, 1976 and 32,990 at \$17.66 U.S. per share on or before July 1, 1976	180,127
\$20,408,200 principal amount of 5½% Convertible Subordinated Debentures are convertible on or before December 1, 1984 into Class A shares at \$20.00 per share	1,020,410
	<u>1,200,537</u>

(iii) Options to Purchase Capital Stock.

As at December 31, 1965, employees (including officers and directors) held options to purchase 5,397 Class A shares and 72,905 Class B shares at prices ranging from \$6.55 to \$22.00 per share, exercisable at varying dates to December 29, 1975. In all cases the option price is equal to or greater than the market price at the granting date, after adjustment for dilution arising from a stock dividend paid in Class A shares during 1963.

All options on Class B shares were issued under the Employees' Incentive Share Option Plan under which 150,000 Class B shares were set aside for issuance to employees. At January 1, 1965, 21,436 Class B shares were available for option under the plan and at December 31, 1965, 936 were available.

As a result of the payment of the stock dividend in 1963, the holders at that time of options to purchase Class B shares became entitled to purchase one Class A share for each ten Class B shares held under option, in accordance with the anti-dilution provisions of the option agreements. In addition, as a result of the issuance of 5½% Convertible Subordinated Debentures in 1964, the holders of options at that time to purchase Class A and Class B shares became entitled to purchase a one hundred dollar debenture for each twenty-five Class A or B shares purchased, in accordance with the anti-dilution provision of the option agreements. As at December 31, 1965, the amount of debentures which may be purchased by such optionees was \$254,700.

A summary of the transactions relating to optioned shares is as follows:

	Optioned Shares January 1, 1965	Options		Optioned Shares December 31, 1965
		Granted 1965	Exercised 1965	
Class A shares				
Officers and directors	10,229	—	7,736	2,493
Other employees	3,867	—	963	2,904
	<u>14,096</u>	<u>—</u>	<u>8,699</u>	<u>5,397</u>
Class B shares				
Officers and directors	101,284	15,000	77,281	39,003
Other employees	36,171	5,500	7,769	33,902
	<u>137,455</u>	<u>20,500</u>	<u>85,050</u>	<u>72,905</u>

(iv) Shares Issued During the Year.

During the year, 8,799 Class A shares and 85,050 Class B shares were issued for \$73,928 and \$702,083 respectively on conversion of outstanding debentures and exercise of share options.

NOTE 6 INCOME TAX

It is the policy of the Company to make charges against income for depreciation of plant and equipment based upon the estimated service life of each group of assets and to amortize the costs of exploration and development of oil and gas properties using the unit of production method. The Company, however, claims the maximum capital cost allowances and exploration and development costs allowed in calculating income tax payable. In 1965, the amounts claimed for income tax purposes exceeded the provisions for depreciation and amortization charged against income and as a result there was no income tax payable. The amount of income tax deferred has been charged to income in 1965 and credited to "Deferred Income Taxes".

The Company has recognized retroactively by a credit to earned surplus of \$2,631,794 the appropriateness of lower rates of deferred taxes, together with the tax effect with respect to the disposition of certain assets in 1958 and 1960.

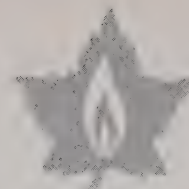
The adjustment in rate had the effect of reducing the provision for deferred taxes in 1965 by \$222,800 (1964—\$149,700).

NOTE 7 DIRECTORS' REMUNERATION

Administrative expenses for 1965 include \$194,700 paid as remuneration to directors and officers who are also directors.

NOTE 8 CONTINGENT LIABILITY

The Company has entered into throughput and deficiency agreements in effect guaranteeing 50% of the principal and interest of outstanding First Mortgage Bonds, of Federated Pipe Lines Ltd., a 50% owned company. Federated had outstanding at December 31, 1965, \$14,140,000 First Mortgage Bonds.



TRANS-CANADA PIPE LINES LIMITED

At December 31, 1965, Home owned 1,289,000 shares of Trans-Canada Pipe Lines Limited or 17 per cent of the outstanding shares.

Trans-Canada's operating revenue for 1965 was \$136,973,000 compared with \$119,612,000 in 1964, an increase of 14.5 per cent. Net income was \$13,834,000 (\$1.82 per share) compared with \$13,243,000 (1.76 per share) in 1964. The increase in net income was proportionately less than the increase in operating revenue, due mainly to the increased cost of short term supplies of gas purchased to minimize pipeline construction in Canada pending completion of the new pipeline through the United States. Average daily gas sales were 982,000 Mcf. compared with 865,000 Mcf. in 1964, while maximum day sales reached 1,249,000 Mcf. compared with 1,196,000 Mcf.

A \$26,000,000 construction program was completed under which 84 miles of new 34-inch pipe and additional compression equipment, having a total of 21,550 horsepower, was provided for the company system.

In August, 1965, American Natural Gas Company of Detroit became an equal partner in the Great Lakes project. This project, which was announced in late 1964, is a \$200,000,000 36-inch diameter pipeline which will run from

Emerson, Manitoba through Minnesota, Wisconsin and Michigan to Sarnia, Ontario. Hearings of the necessary applications commenced before the National Energy Board on March 1, 1966 and are scheduled to commence before the Federal Power Commission on April 19, 1966.

The company has entered into, or is in the process of negotiating, new long term contracts with most of its Canadian customers for sales of additional volumes of gas, estimated at 4.53 trillion cubic feet over the twenty-five year period, commencing with completion of the first stage of the Great Lakes project. As part of the Great Lakes project the company has also entered into contracts with its major export customers for additional sales which will increase to 170,000 Mcf. daily in 1970.

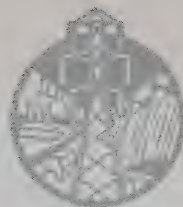
Assuming that all necessary regulatory approvals are received in 1966 for the Great Lakes project, the company's 1966 construction program will total approximately \$36,000,000. The company's 1966 program, subject to regulatory approvals, also contemplates the building of a 41-mile, 16-inch pipeline in Saskatchewan.

A five year summary of financial data relating to the affairs of Trans-Canada Pipe Lines Limited is given below.

	1965	1964	1963	1962	1961
Operating revenues	\$136,973	119,612	102,523	87,834	77,108
Net income	\$ 13,834	13,243	8,928	6,066	2,076
Net income per share	\$ 1.82	1.76	1.52	1.03	.35
Dividends declared per share	\$ 1.00	1.00	—	—	—
Property, plant and equipment — gross	\$587,644	562,329	512,682	329,420	298,028
Accumulated depreciation	\$ 67,570	54,489	42,505	22,917	16,470
Long term debt	\$391,819	365,779	376,812	214,319	222,185
Shareholders' equity	\$102,927	95,453	60,832	50,344	45,833

With the exception of per share figures, amounts are shown in thousands of dollars

CALGARY POWER LTD.



Calgary Power Ltd., in which Home Oil owned 508,500 common shares or 9.6 per cent of the issued and outstanding common shares at December 31, 1965, is one of the largest investor owned electric utilities in Canada. It is the principal distributor of electricity in Alberta, supplying almost two-thirds of the province's total requirements. Its record has been one of continued success and expansion.

Calgary Power is a Canadian owned company with 90 per cent of its shares held in Canada. The company operates 12 hydro-electric power generating stations in Alberta having a total installed capacity of 490,000 KW. In addition, its thermal power plant located on the shores of Lake Wabamun, 40 miles west of Edmonton, has an installed capacity of 283,000 KW. Current expansion projects will add another 475,000 KW to Calgary Power's capacity over the next two years, including a \$35,000,000 addition to the Wabamun plant.

During the last ten years, Calgary Power's total power production increased threefold to over three billion kilowatt hours. The company's energy load increased 9 per cent in 1963, 11 per cent in 1964, and 11.5 per cent during 1965.

Calgary Power's distribution system serves 132,000 customers directly and 110,900 through wholesale contracts. It supplies the entire electrical requirements of the municipal utilities of Calgary, Red Deer, Cardston, Macleod and Ponoka. It serves more than 7,200 industrial users throughout Alberta as well as 475 cities, towns and villages. The electrical requirements of Alberta farmers are serviced through Farm Electric Services Ltd., a wholly owned subsidiary. The company operates over 6,000 miles of main transmission lines and 7,845 miles of distribution lines.

Gross operating revenue for 1965 of \$37,672,000 was the highest in the company's history. Net income for 1965 was \$8,897,000, of which \$7,362,000 was available to the common shareholders. Net income per common share was \$1.40 compared with \$1.28 per share the previous year. This represents an increase of 9.3 per cent. In line with this increase, the dividend rate applicable to the common shares was raised from \$0.60 per share in 1964 to \$0.65 per share in 1965.

A five year summary of financial data relating to the affairs of Calgary Power Ltd. is given below.

	1965	1964	1963	1962	1961
Gross operating revenue	\$ 37,672	34,558	32,072	30,681	28,120
Net income	\$ 8,897	8,165	6,683	7,163	6,842
Net income per share	\$ 1.40	1.28	1.17	1.26	1.20
Dividends declared per common share	\$.65	.60	.60	.55	.40
Property account	\$248,797	224,673	204,322	186,960	164,750
Depreciation reserve	\$ 52,765	47,080	42,100	37,254	32,622
Funded debt	\$ 89,357	81,238	75,033	66,728	59,352
Shareholders' equity	\$ 62,314	58,364	54,784	51,536	48,046

With the exception of per share figures, amounts are shown in thousands of dollars

HOME OIL COMPANY LIMITED

Ten Years of Growth 1956 • 1965

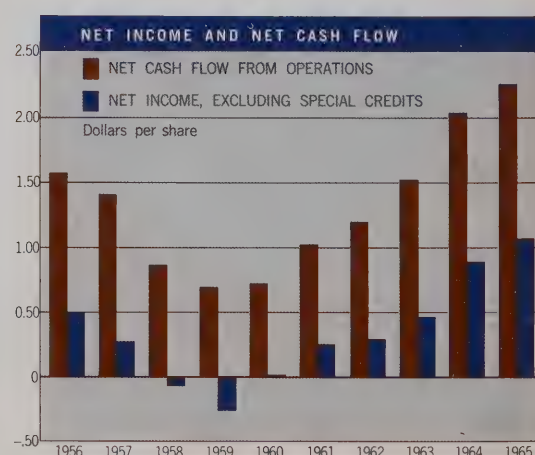
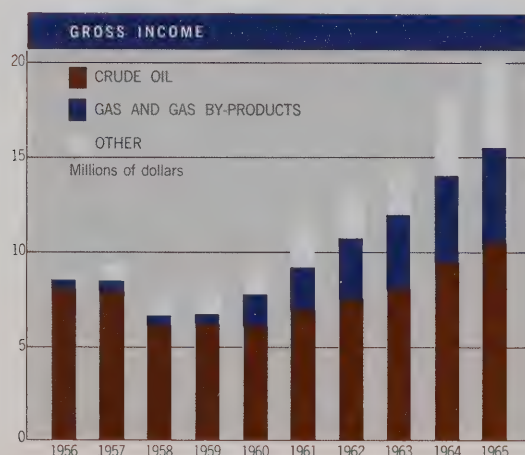
1965

1964

INCOME AND NET CASH FLOW (1)	Gross income	\$ 20,130,000	18,109,000
	Net income (exclusive of special credits)	\$ 5,221,000	4,218,000
	Per share	\$ 1.08	.89
	Special credits (debit)	\$ 516,000	1,012,000
	Per share	\$.11	.21
	Net flow of funds from operations	\$ 10,921,000	9,643,000
	Per share	\$ 2.26	2.03
SHARES AND DIVIDENDS	Dividends declared per Class A share	\$.50	.35
	Dividends declared per Class B share	\$.50	.35
	Number of shares outstanding	4,835,000	4,741,000
	Number of shareholders	13,900	12,800
EXPLORATION AND DEVELOPMENT (1)	Cost of finding and developing reserves		
	Exploration expenditures	\$ 5,296,000	3,495,000
	Development expenditures	\$ 2,976,000	3,259,000
	Exploration acreage		
	Gross acres	5,762,000	5,759,000
DRILLING ACTIVITY	Net acres	2,382,000	2,035,000
	Gross wells drilled	78	52
	Net oil wells completed	11	16
	Net gas wells completed	3	1
RESERVES (2)	Net dry wells drilled	21	8
	Proven developed reserves		
	Crude oil and natural gas liquids — barrels	152,489,000	114,937,000
PRODUCTION AND PIPELINES OPERATIONS	Natural gas — thousand cubic feet	677,001,000	601,833,000
	Crude oil and natural gas liquids production		
	Daily average — barrels	12,809	11,623
	Natural gas sales		
	Daily average — thousand cubic feet	61,823	59,269
	Cremona Pipe Line Division		
	Daily average gatherings — barrels	36,348	33,496
BALANCE SHEET (1)	Federated Pipe Lines Ltd. (50% owned)		
	Daily average throughput — barrels	110,719	82,252
	Working capital (deficiency)	\$ (5,963,000)	4,897,000
	Investments in other companies	\$ 50,128,000	36,331,000
	Property, plant and equipment — net	\$ 90,687,000	84,046,000
	Long term debt (less current portion)	\$ 69,941,000	67,287,000

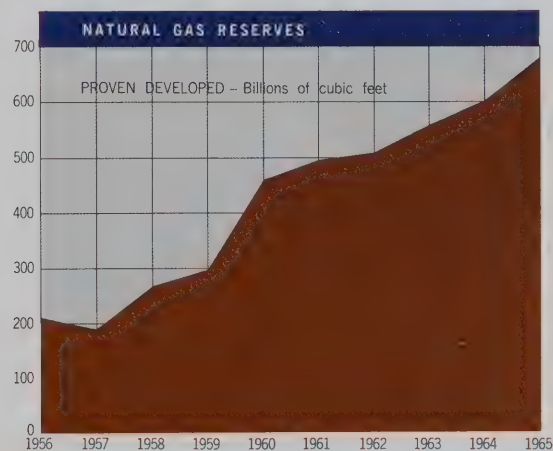
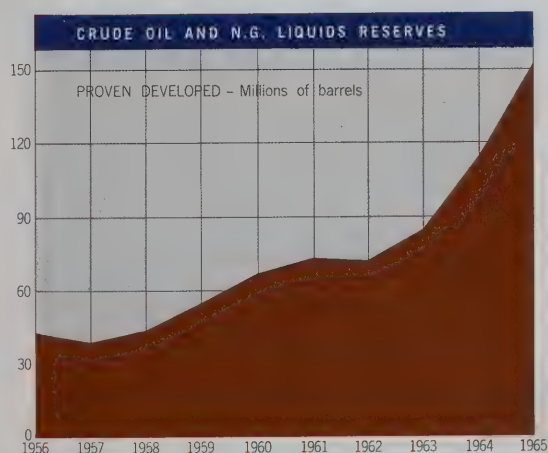
(1) All retroactive adjustments, where applicable, have been reflected above.

(2) 1965 reserves were estimated by independent engineers.



1963	1962	1961	1960	1959	1958	1957	1956
14,412,000	13,140,000	11,554,000	9,282,000	7,781,000	7,523,000	9,376,000	8,733,000
2,188,000	1,374,000	1,174,000	33,000	(1,130,000)	(268,000)	1,089,000	1,912,000
.48	.30	.26	.01	(.25)	(.06)	.28	.50
1,034,000	—	—	2,690,000	—	1,593,000	—	(500,000)
.23	—	—	.59	—	.35	—	(.13)
6,941,000	5,399,000	4,631,000	3,290,000	3,146,000	3,935,000	5,542,000	6,081,000
1.52	1.19	1.02	.72	.69	.87	1.41	1.58
.25	.25	.25	.25	.25	.25	.25	.25
.25	—	—	—	—	—	—	—
4,565,000	4,548,000	4,542,000	4,542,000	4,542,000	4,514,000	3,929,000	3,854,000
12,800	13,000	13,000	13,030	12,600	12,370	11,413	10,430
2,933,000	2,045,000	2,165,000	2,570,000	2,703,000	4,596,000	3,006,000	2,550,000
3,528,000	2,226,000	2,618,000	4,713,000	5,136,000	4,139,000	2,202,000	9,001,000
4,712,000	3,561,000	3,609,000	3,791,000	4,725,000	2,541,000	2,027,000	1,655,000
1,408,000	1,007,000	1,055,000	1,189,000	1,660,000	1,104,000	769,000	674,000
68	65	78	98	57	43	30	104
8	9	11	19	11	5	10	51
3	2	1	2	3	3	1	1
9	10	11	7	6	7	5	9
84,419,000	71,725,000	73,196,000	66,820,000	54,981,000	43,919,000	38,913,000	42,923,000
55,300,000	506,660,000	497,713,000	459,271,000	297,096,000	266,389,000	186,762,000	210,000,000
10,042	9,402	8,908	7,849	7,357	6,935	8,651	9,027
52,497	43,136	36,073	30,697	16,701	16,040	17,476	15,548
31,862	29,260	17,597	10,850	9,452	8,055	5,546	1,891
67,727	58,918	42,257	19,654	5,185	—	—	—
(1,001,000)	(3,317,000)	1,280,000	(9,454,000)	(31,954,000)	(20,992,000)	(3,387,000)	8,278,000
33,887,000	41,169,000	40,614,000	39,763,000	34,421,000	31,187,000	13,572,000	1,048,000
64,559,000	60,774,000	58,327,000	54,936,000	53,463,000	47,715,000	46,817,000	44,631,000
47,069,000	52,430,000	55,943,000	42,315,000	14,122,000	15,436,000	23,132,000	22,506,000

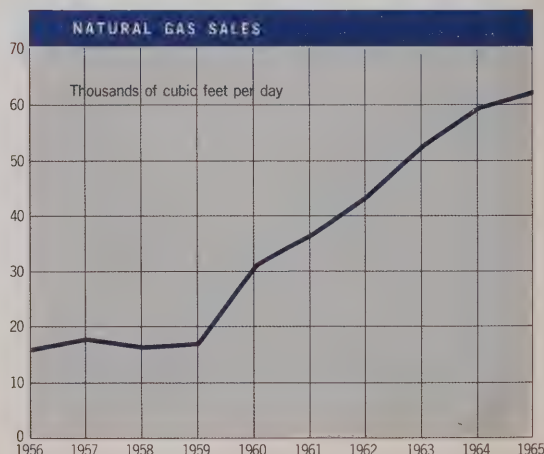
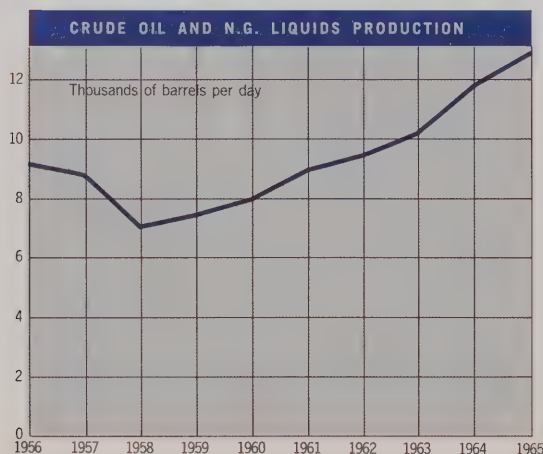
Company's reservoir engineers. Reserves for prior years were estimated by McDaniel Consultants (1965) Ltd.



HOME OIL COMPANY LIMITED

Sources of Production

Net Wells Dec. 31/65	Producing Field	1965	1964	1963	1962	1961
CRUDE OIL — Barrels						
66.55	Swan Hills	1,665,081	1,325,564	959,586	836,079	657,420
54.47	Pembina	481,731	551,795	323,244	316,726	372,778
108.88	Turner Valley	357,980	400,199	404,263	402,028	402,700
32.41	Leduc-Woodbend	289,200	355,640	359,980	379,905	428,828
11.78	Virginia Hills	350,084	292,544	220,057	205,522	194,864
15.60	Harmattan-Elkton	253,156	256,600	380,359	389,727	375,360
14.13	Mitsue Saulteaux	206,178	19,923	—	—	—
46.46	Other	398,187	423,421	428,548	426,893	484,804
350.28	Total Crude Oil	4,001,597	3,625,686	3,076,037	2,956,880	2,916,754
	Daily Average	10,963	9,906	8,427	8,101	7,991
NATURAL GAS LIQUIDS — Barrels						
—	Carstairs-Elkton	352,684	326,788	321,896	275,704	250,107
2.41	Harmattan	169,132	143,963	126,261	73,469	9,576
—	Nevis	54,050	54,569	46,823	26,768	23,509
—	Other	98,061	103,246	94,540	98,929	51,471
2.41	Total Natural Gas Liquids	673,927	628,566	589,520	474,870	334,663
	Daily Average	1,846	1,717	1,615	1,301	917
	Total Crude Oil and Natural Gas Liquids	4,675,524	4,254,252	3,665,557	3,431,750	3,251,417
	Daily Average	12,809	11,623	10,042	9,402	8,908
NATURAL GAS — Thousands of Cubic Feet						
3.15	Carstairs-Elkton	10,912,021	9,797,152	9,266,463	7,411,032	6,982,400
2.50	Nevis	3,461,556	3,498,045	3,061,199	1,886,021	1,547,265
.63	Calgary	1,525,560	1,478,498	1,254,560	1,375,478	55,692
10.55	Turner Valley	1,184,000	2,609,436	2,662,567	2,271,159	2,779,215
.32	Sarcee	989,878	817,455	681,918	654,521	115,488
1.20	Pendant d'Oreille	603,662	458,034	496,465	373,405	58,586
—	Jumping Pound	587,474	895,641	707,099	793,798	833,278
6.79	Other	3,301,230	2,138,182	1,031,258	979,193	794,613
25.14	Total Natural Gas	22,565,381	21,692,443	19,161,529	15,744,607	13,166,537
	Daily Average	61,823	59,269	52,497	43,136	36,073



HOME OIL COMPANY LIMITED

Exploration Acreage • January 1, 1966

Area	Petroleum and Natural Gas Leases		Reservations, Licences Permits		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	1,551,540	617,030	1,619,914	653,825	3,171,454	1,270,855
Alaska	254,837	117,654	—	—	254,837	117,654
British Columbia . . .	78,810	14,959	—	—	78,810	14,959
Ontario	79,957	48,091	24,200	12,100	104,157	60,191
Saskatchewan	66,731	13,378	384,737	54,680	451,468	68,058
United Kingdom . . .	—	—	1,700,918	850,459	1,700,918	850,459
TOTAL	2,031,875	811,112	3,729,769	1,571,064	5,761,644	2,382,176

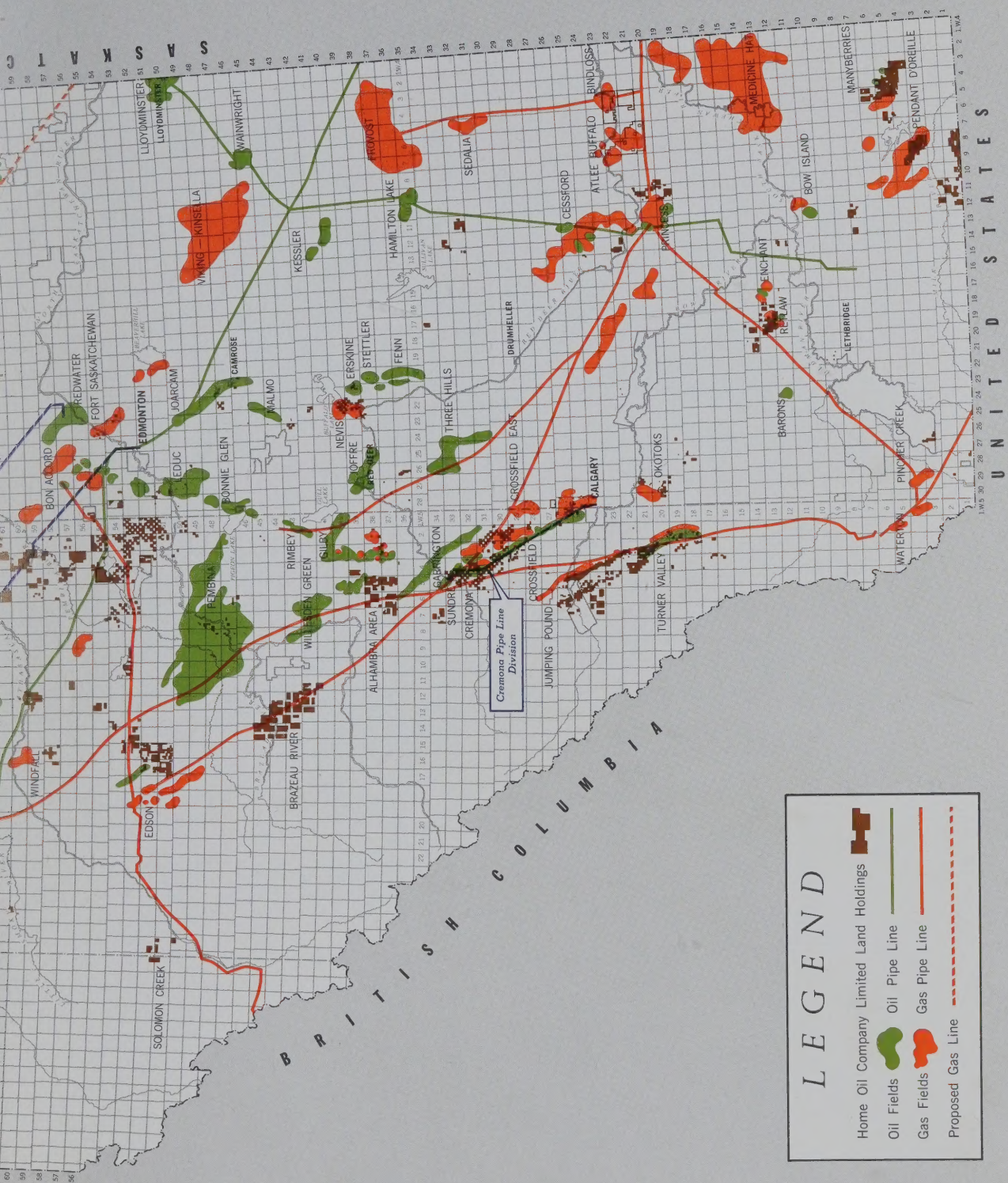
Reserves • January 1, 1966

Category	Crude Oil (barrels)	Natural Gas Liquids (barrels)	Total Crude Oil and Natural Gas Liquids (barrels)	Natural Gas (1000 cu. ft.)
Proven				
Developed	133,583,700	18,905,200	152,488,900	677,001,000
Undeveloped	165,100	—	165,100	—
	133,748,800	18,905,200	152,654,000	677,001,000
Probable Additional				
Secondary	82,071,500	265,400	82,336,900	12,548,100
Areal	427,700	—	427,700	45,371,000
	82,499,200	265,400	82,764,600	57,919,100
TOTAL	216,248,000	19,170,600	235,418,600	734,920,100

Reserves estimated by the Company's reservoir engineers.

NORTH WEST TERRITORIES







HOME OIL IN ENGLAND — A modern drilling rig and the crumbling walls of an ancient edifice provide a striking contrast on the Yorkshire moors.



